

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: EFIN, ID

SUBJECT: PROPOSED GOI POLICY CHANGE ON FOREIGN INSURANCE
COMPANIES

REF: A) STATE 23582 B) JAKARTA 0316

1. OFFICERS OF AMERICAN INTERNATIONAL GROUP (AIG) HAVE
CALLED RECENTLY AT DEPT TO REQUEST THAT EMBASSY EXPRESS
USG CONCERN OVER THRUST OF NEW GOI POLICY TOWARD FOREIGN
INSURANCE COMPANIES.

2. AIG OFFICERS PERPLEXED OVER GOI'S SEEMINGLY FAULTY
PERCEPTION OF INSURANCE BUSINESS IN INDONESIA. MOHAMAD
HASIJIM'S STATEMENT THAT FOREIGN FIRMS HAVE BEEN GETTING
INCREASING SHARE OF MARKET (REF B, PARA 2) OVERLOOKS,
THEY SAY, FACT THAT ABOUT 80 PERCENT OF GENERAL INSURANCE
BUSINESS IS DONE BY INDONESIAN FIRMS, PARTICULARLY BY
P.T. ASURANSI JASA INDONESIA WHICH HAS OVER HALF OF GENERAL
INSURANCE UNDERWRITINGS, AND FACT THAT MAIN REASON FOREIGN
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INSURANCE COMPANIES ENTERED INDONESIA IS TO BETTER SERVE

THEIR CO-NATIONAL BUSINESS FIRM CLIENTS OPERATING IN INDONESIA, NOT TO TAKE BUSINESS AWAY FROM INDONESIAN FIRMS.

3. IN SHORT, AIG CLAIMS THAT GOI FAILS TO DISTINGUISH BETWEEN DIFFERENT INSURANCE MARKETS AND REQUIREMENTS IN

ITS COUNTRY. FOREIGN INVESTORS IN INDONESIA ARE ACCUSTOMED TO COVERAGES, PRACTICES, AND SERVICE OF THEIR CO-NATIONAL INSURANCE COMPANIES AND ARE REASSURED BY IMMEASURABLY GREATER SIZE OF THEIR ASSETS AND WORLD-WIDE SPREAD OF THEIR RISKS; THEY WOULD BE MOST RELUCTANT TO PLACE ANY SIGNIFICANT PORTION OF THEIR INSURANCE COVERAGE WITH AN INDONESIAN FIRM, UNLESS LOCAL REGULATION REQUIRED THIS. LIKEWISE, GENERAL INSURANCE BUSINESS GENERATED BY INDONESIAN ENTERPRISES, STATE AND PRIVATE, ALMOST INEVITABLY GOES TO INDONESIAN INSURANCE FIRMS, AND PRIMARILY TO P.T. ASURANSI JASA INDONESIA, BECAUSE OF GOI REGULATIONS AND STRENGTH OF LOCAL SOCIAL AND BUSINESS RELATIONSHIPS: FOREIGN INSURANCE FIRMS HAVE LITTLE INCLINATION TO BREAK INTO THIS MARKET.

4. AIG SUGGESTS THAT CREATING DOZEN NEW PRIVATE JOINT VENTURE INSURANCE COMPANIES WITHOUT CAREFUL PLANNING COULD HAVE TWO UNFORTUNATE RESULTS. FIRST, PROSPECTIVE FOREIGN INVESTORS COULD BE DISSUADED FROM PROJECTS IN INDONESIA BECAUSE THEY COULD NOT GET INSURANCE PROTECTION THEY FEEL THEY REQUIRE. SECONDLY, COMPANY WHICH ALREADY DOMINATES GENERAL INSURANCE MARKET (P.T. ASURANSI JASA INDONESIA) COULD BE STRENGTHENED FURTHER, THUS REDUCING PRESENT LEVEL OF COMPETITION, IF EQUITY CAPITAL FOR JOINT VENTURE WHICH IS PUT UP IN NAME OF SMALL INDONESIAN PRIVATE SHAREHOLDER IS IN FACT PROVIDED BY P.T. ASURANSI.

5. AIG WORRIED ABOUT INDONESIAN TAX IMPLICATIONS WHICH COULD GROW OUT OF A TRANSFER OF THEIR PORTFOLIOS TO NEW JOINT VENTURES. IN THIS CONNECTION, KOMPAS ARTICLE MARCH 2 STATES THAT AN INSURANCE COMPANY (PRESUMABLY INDONESIAN) WHICH LIQUIDATES ITSELF IN ORDER TO MERGE LIMITED OFFICIAL USE

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WITH ANOTHER COMPANY SHALL PAY A TEN PERCENT TAX ON "PROFITS OF LIQUIDATION".

6. AIG OFFICERS ADDED THAT COST OF POLICIES TO INSURED COULD RISE, BECAUSE NEW JOINT VENTURE COMPANIES WOULD HAVE FEWER ASSETS AND WOULD REQUIRE GREATER AMOUNTS OF REINSURANCE. FOREIGN EXCHANGE OUTFLOWS WOULD RISE, TOO.

7. IF GOI MUST FOLLOW THROUGH ON ITS JOINT VENTURE POLICY, AIG CONTENDS, MUCH THOUGHTFUL ATTENTION SHOULD BE GIVEN FIRST TO MEETING REQUIREMENTS OF INDONESIAN MARKET. HASTY AND FORCED ACTIONS SHOULD BE AVOIDED. AIG URGES THAT USG CALL GOI'S ATTENTION TO DISADVANTAGES OF ITS JOINT VENTURE POLICY AND TO DESIRABILITY, IN ANY EVENT, OF POLICY'S VOLUNTARY IMPLEMENTATION. GOI POLICIES THAT MAKE IT ECONOMICALLY INFEASIBLE FOR FOREIGN COMPANIES

TO CONTINUE OPERATING IN CURRENT MANNER CANNOT BE DEEMED VOLUNTARY, AIG ASSERTS.

8. BEFORE INSTRUCTING EMBASSY ON HOW IT SHOULD RESPOND TO MOHAMAD HASIJIM'S REQUEST FOR EMBASSY REACTIONS (REF B, PARA 5), DEPT WOULD APPRECIATE EMBASSY'S REPORT ON 1) WHAT LOCAL REPS OF U.S. INSURANCE COMPANIES HAVE LEARNED REGARDING GOI'S INTENTIONS SINCE JANUARY, AND 2) WHAT REPRESENTATIONS, IF ANY, BRITISH AND NETHERLANDS EMBASSIES, HAVE MADE, AS WELL AS EMBASSY'S COMMENTS ON AIG POINTS MADE IN PARAS 2-7. KISSINGER

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